# MAN and his RICHES

By MARY B. AMBLER

# MAN *and* HIS RICHES

## UNIFORM WITH THIS VOLUME

HOW THE WORLD GREW UP
*The Story of Anthropology*

HOW THE WORLD SUPPORTS MAN
*The Story of Human Geography*

MAN AND HIS RECORDS
*The Story of Writing*

THE TONGUES OF MAN
*The Story of Languages*

MAN AND HIS CUSTOMS
*The Story of Folkways*

HOW THE WORLD IS RULED
*The Story of Government*

HOW THE WORLD LIVES
*The Story of Sociology*

THIS MAN-MADE WORLD
*The Story of Inventions*

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THOMAS S. ROCKWELL COMPANY
*Publishers*
CHICAGO

*Publishers' Note*

This book presents in popular form the present state of science. It has been reviewed by a specialist in this field of knowledge. An excerpt from his review follows:

> *"Most of us spend the greater portion of our active life in the endeavor to earn a living and soon learn that our lives and fortunes are intimately bound up with the economic world. We also find that of the many social problems that confront us as citizens those arising out of this economic world are among the most important. This little book is well designed to present to younger people some of the outstanding characteristics and problems of our present economic order. It should thus serve to develop an earlier interest in, and a better understanding of, the problems with which, both as private individuals and as citizens, we are all so vitally concerned."*

*Signed:* Chester W. Wright
*Professor of Economics,*
*The University of Chicago*


*Turning, for them who pass, the common dust*
*of servile opportunity to gold*
—Wordsworth

# MAN and HIS RICHES

*By*

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THOMAS S. ROCKWELL COMPANY
CHICAGO
1931

*Printed in the United States of America*

# CONTENTS

# LIST OF ILLUSTRATIONS

## Chapter I

# WHAT IS WEALTH?

EVER since man has lived on the earth, he has had some form of wealth. He has always had things that were useful and valuable to him.

*Can anything be wealth?*

But everything that is useful is not wealth, as we use that word. For instance, we could not go on living if we did not have air to breathe; but air is not wealth. We say that it is not wealth, because the supply of it, so far as man is concerned, is unlimited. Anybody can get all he wants of it without cost. It is often the same way with water. If you live near a well, you can dip up all the water you want for nothing. And if all the other people in the vicinity have wells, they will not want any of your water. But if water is sent to your house through pipes by the city, then a certain sum

of money has to be paid every year for the water. Water is then a form of wealth. Again, if you want a very fine kind of water, such as mineral-spring water, you buy it in a bottle from a dealer, just as you buy milk. That, too, is wealth.

*What is wealth?*

In order for a thing to be wealth, it must be more or less scarce. It must be something that we call material; that is, something that you can see or handle. Things like health or beauty, for instance, are not wealth, though we prize them. Next, in order to be wealth, a thing must be useful; and by *useful* we mean that it must satisfy some human want. A pair of old shoes, all worn out so that they could not be used for any purpose, might be scarce and certainly would be material, but they would not be wealth, because they would have no use. Again, a thing that is wealth must be owned by some person or some group of persons—for instance, by Mr. Smith, by the firm of Jones & Company, or by the United States Government. There might be a lot of gold in the rocks under

the Pacific Ocean, but it is not wealth, because it is not owned by anybody.

*Was there wealth in the Stone Age?*

Even the uncivilized people who lived many hundreds of years ago, in the time called the Stone Age, had wealth. For instance, they had furs for clothing, stone tools, and various other things. There are some tribes of people living in the world today who are very much like the people of the Stone Age. People who live that sort of life do not have much wealth. They get their food mainly by hunting and fishing, and they have very few wants.

As man became more civilized, his wealth increased, both because he had more wants, and because by using his intelligence he found that he could invent means of producing the goods to satisfy his wants. But the more things he got, the more wants he seemed to have. Civilized people today are wealthier than people in the past, because they have more wants that they must satisfy, and also because they have learned how to accumulate wealth and are constantly devising newer and better ways of pro-

ducing goods to make life more comfortable. People who are accustomed to living in fine modern houses, and to wearing good clothing, eating savory, well-cooked food, and riding in automobiles, would not be satisfied with living in mud huts, wearing dirty skins of animals, eating raw meat, or riding in an ox-cart.

*What happened when man's wants increased?*

Man's wants increased because, unlike the animals, he was able to control nature, by means of science and invention, thus using her forces and riches more and more. Along with this, there were two things that went closely together: the division of labor, and trade.

By *the division of labor* we mean that each man does one particular job or makes one particular thing, and gets all his other wants satisfied by goods or work from other people. When people lived by hunting and fishing, there was very little division of labor.

The next step above this sort of life was when people learned how to plant crops, such as wheat and other grains. When this happened, many more people could live in the

same country than could live there before. Then, too, wheat and other grains can be kept through the winter and ground up into flour whenever desired. When people lived by hunting and fishing, they had to eat the food all at once, because there was no dependable way of keeping it. Then, when fresh food was scarce, hundreds might die of starvation. With farming there was no longer this constant danger of famine. Besides, they learned how to raise animals for food, such as cattle and sheep, instead of roaming around with bows and arrows to find wild animals for food.

*Did more "wants" make life more comfortable?*

As a result, thousands of people could look around for other things to do. They did not have to wonder what to do. For now that human beings did not have to worry so much about where their dinners were coming from, they began to feel the need of many things that would make life more comfortable. They were getting to have more *wants*. Furthermore, the raising of crops and the tending of flocks and herds made necessary the making of many other

things, such as plows, scythes, flails, leather goods, more and better cooking utensils and dishes.

*When did man begin to specialize?*

Even while living mainly by hunting and fishing, mankind had begun to learn how to make certain things, such as baskets and pottery, and rough kinds of cloth. Now these arts, as we call them, began to grow very rapidly. The old ones were carried on in better ways, and many new ones were invented. Thus the working of metals became greatly improved and a more and more important part of human life. People began to *specialize*; that is, to become experts in making certain things. One man would become a metal worker, another a glass blower, another a weaver, another a carpenter, and so on. Each man, by spending all his time on one particular job, would become a very skillful workman. He would produce much wealth of one kind. There would be more of it than he could use for himself and his family; so he would exchange what he did not need, for food and other things to supply the wants of

himself, his wife, and his family. Such was the growth of the division of labor.

Trade was very closely tied up with the division of labor. Trade, too, like the division of labor, had existed from the earliest times. It grew up naturally; people did not say, "Trade is a good thing; therefore let us trade."

*How did trade come about?*

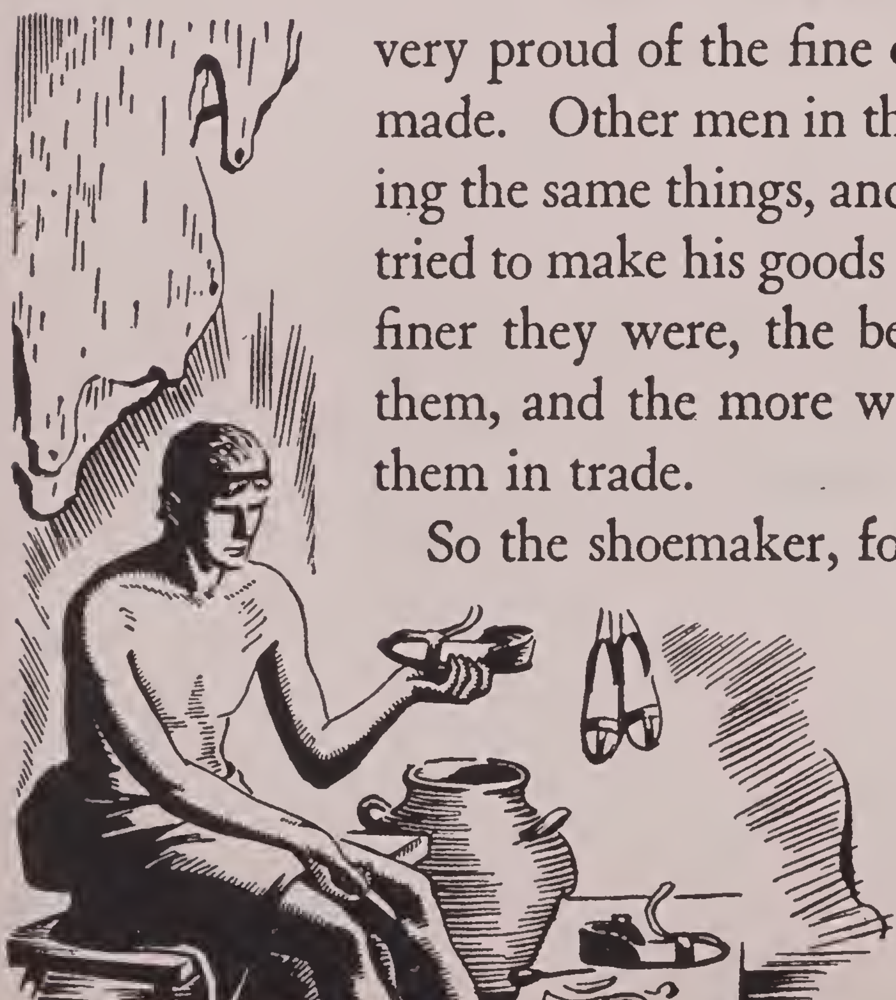
Whenever a person gives something that he owns to another person in exchange for something that person owns, we have trade. People exchanged things simply because the thing that they took from the other person was more useful to them in satisfying some particular want. Thousands of years ago, in the Stone Age, there must have been times when a hunter had some extra arrowheads or stone hatchets that he would offer to another man for some furs or meat that the other man could spare. They did not realize that they were trading; they just "swapped" the things, and each man went away happy over the deal. It was much like what happens today among small boys. Jack has more marbles than he

needs, while Bill has a top that he has tired of. Bill would like ever so much to have a few more marbles, while Jack looks longingly at Bill's top. It will not be very long before they have "swapped," though perhaps Jack, in order to get the top, will have to give a few more marbles than he expected. These things are wealth, and where wealth is exchanged between persons, young or old, trade takes place.

*When did man become a skillful workman?*

When the division of labor went so far that each man had some special trade, he became a better workman. By doing the same job all the time, he showed more skill. Of course when he became more skillful, the things he made were of a better quality. He became very proud of the fine quality of the things he made. Other men in the same trade were making the same things, and each of them naturally tried to make his goods as fine as possible. The finer they were, the better would people like them, and the more would the maker get for them in trade.

So the shoemaker, for instance, kept becom-



*Early shoemakers were proud of the shoes they could make*

ing a better shoemaker, and when his oldest son was growing up, the father usually taught him the trade, so that when the father died, the son would be able to carry on the business. He would be well trained in the job, and so he would become more skillful than his father and produce better shoes. He might invent new and cheaper ways of making shoes, without any lowering of the quality. Then he would get more wealth, because he would have more shoes to offer in exchange for other goods.

*Why did each man want to do better work?*

The result was that men were always trying to invent ways of making things better and at less cost. Other men, as the population kept growing, found there was no more room in the old trades for more men to make a living; so they began making things that would satisfy new wants—things they could offer to the public in trade.

People went on in this way century after century, and thus it was that the world kept getting more and more civilized. In ancient Egypt, four thousand years ago, civilization

had already reached a high point. The division of labor had gone a long way. People had almost countless wants, and a great many things were made and exchanged so as to satisfy those wants. In other words, there was much wealth in ancient Egypt.

*What is capital?*

When wealth became plentiful, people could begin to save some of it. So, by not using up everything right away, they could accumulate property. When money came into use, they could put their wealth into the form of money and save part of it. Such saved wealth, in whatever form, is called *capital.*

The man who owned capital could put it aside to use when he became old or sick and needed it. Or he might invest it, and thus accumulate more wealth by means of it. By investing his wealth, we mean that he might put it into some form of capital goods that he himself would then own, or that he might lend it to another man who wanted to use it. Perhaps this man had invented a new kind of machine. But the machine would take a long time to

make, and meanwhile the man would have to buy food for himself and material for making the machine. He would use this other man's wealth to pay his expenses until he could get some of the new machines made and sold. Then, when he received money from the sale of machines, he would pay back the man who loaned him the money, with an additional amount as a reward for allowing him the use of the money. So the man who had saved up this wealth in the first place would now be richer than he was before.

*How did men become richer?*

As we go along, we shall see what a very important part this thing called capital was destined to play in the world's business. Without it, life would be very different for all of us today.

## Chapter II

# THE EARLY KINDS OF MONEY

*What is money?*

IN ORDER that there could be an easy exchange of wealth, there had to be money. When we think of the word *money,* we usually have in mind gold or silver coins, or engraved pieces of paper, such as a five-dollar bill. But money may include many other things. The dictionary tells us that the word means "anything that serves as a common medium of exchange in trade." It is something that is used in order to make it easier for people to exchange their wealth.

You can see how awkward it would be if a man who made shoes wanted to buy a loaf of bread for his family, and there was no such thing as money. Perhaps the baker did not need any shoes at that time, and so did not care to exchange any of his bread for shoes. And

besides, a pair of shoes would be worth much more than a loaf of bread. Of course, the shoemaker could not very well cut up a shoe and offer the baker a piece of it in return for a loaf of bread, even if the baker wanted shoes.

*Why is money necessary?*

The best way out of the trouble would be to have some other article that everybody would be willing to accept at any time, and that could easily be divided up so that you could offer a large amount or a small amount, as the case might be, to the person from whom you wanted to buy something.

We are so familiar with coins made of precious metals that we might imagine that they were used almost from the beginning of trade. But that is not true. For thousands of years after trade began there were no coins. Even some highly civilized nations of the ancient world did not have them.

At first, people used very strange and awkward things for money, as some tribes in different parts of the world still do. An early form of money, among people who kept flocks and

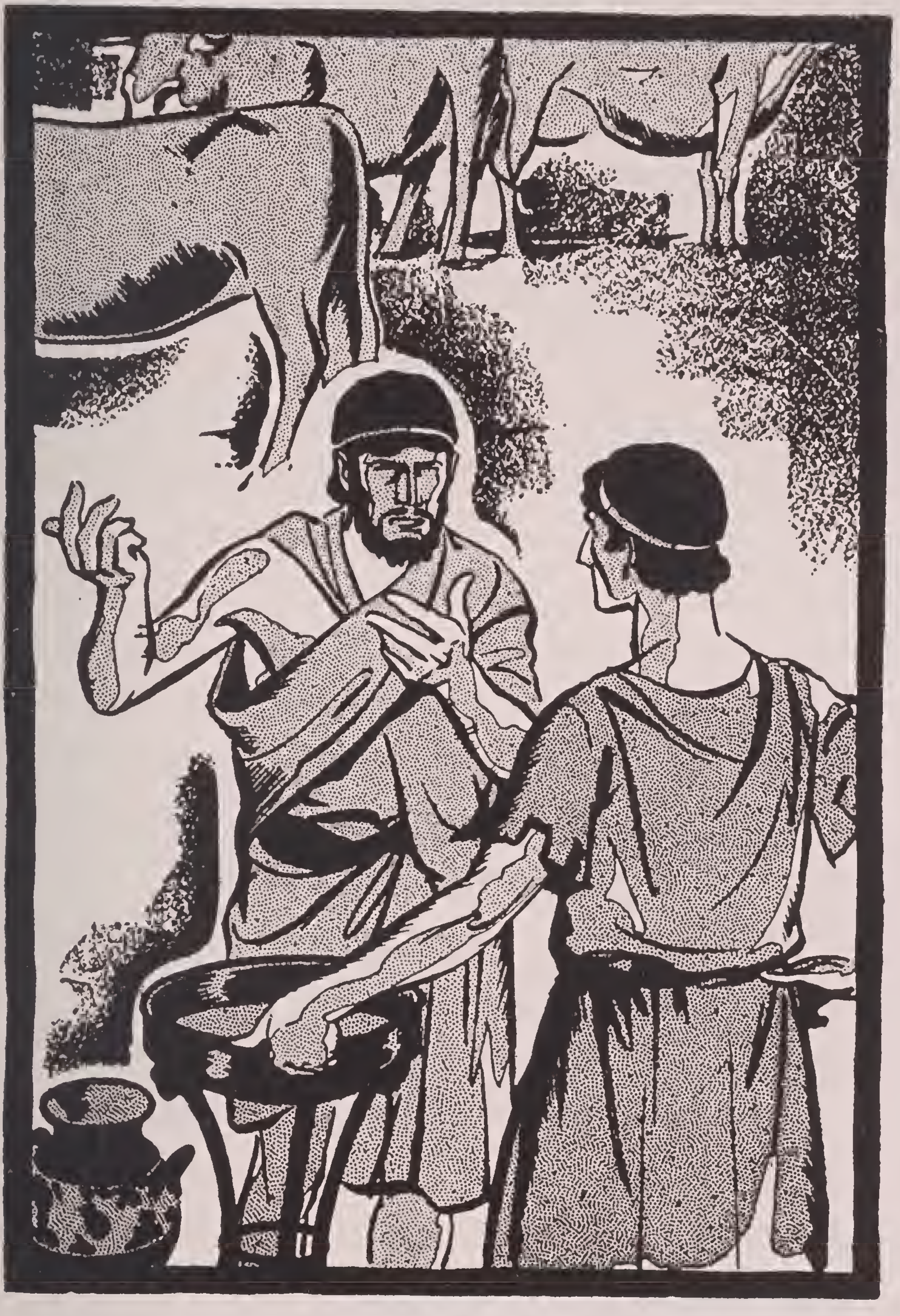
herds, was cattle. We have a word, *pecuniary,* which means "consisting of or relating to money." It comes from the old Latin word *pecus*, meaning "cattle." In the same way, our word *chattel,* which now stands for any kind of property or wealth, is nothing but the word *cattle* in disguise.

*Did the ancient Greeks have money?*

The ancient Greeks, in the early days of their history, used cattle as money. In the famous book called *The Iliad,* written by a man named Homer, we learn that a beautiful tripod (a bronze table with three legs) was worth twelve oxen. When the Greeks, long after this, began to make metal money, their first coins were stamped with a picture of an ox.

Among the ancient Egyptians a number of different articles served as money, for they had no coins. Gold and silver rings were used as money, their value depending upon their weight. Lumps of copper shaped like bricks, as well as pieces of glass, also did the work of money.

The Britons, who lived in England many



*In ancient Greece a tripod was worth twelve oxen*

hundreds of years ago, made their money in the form of iron bars.

*Have many things been used as money?*

As a matter of fact, almost every kind of thing that you can imagine has, at some time or other, in some country or other, been used as money.

In the islands of the East Indies, down to our own day, a certain kind of seashell, known as cowries, has been used in enormous quantities, just as we would use coins. Their use extended even to Africa, and they served as money in China until copper took their place. In India they were for a long time the regular money, with copper taking second place. Even white traders doing business in the South Seas have used cowry-shell money.

In the East Indies, besides the cowry shells, many other articles have passed as money, such as salt, rice, tea, and even spades. In Burma, a country of southeastern Asia, rice was for long a popular form of money. Certain peoples of central Africa also liked spades as money, and iron spikes, too.

Pieces of clay or porcelain have been used as money in many countries, such as India, Babylonia, Egypt, ancient Etruria in Italy, Siam, and Arabia.

It is rather hard to imagine money in the form of dried fish. But in countries of Europe, where fishing is an important business, this kind of money has been used until very recent times.

*How did the Russians use skins as money?*

In Russia, many years ago, there was a very curious kind of money. It consisted of small pieces of skin, of different shapes, cut out of the whole skins of animals. The person who received one of these pieces had a right to the whole skin out of which it had been cut.

Another strange money is the mat money of the islands in the South Pacific Ocean. It consists of long mats, divided into many folds. The value of a mat depends upon the number of folds in it, and their blackness or age. In the Fiji Islands a black cloth called *tapa* is used in the same way.

In the islands scattered through this part of the world coconuts are a common form of

money. An Englishman who lived on the island of Car Nicobar some years ago tells how the people of that island wanted to buy a large racing canoe from the people of Chowra Island. The price of the canoe was 55,000 coconuts. But the Car Nicobar people did not like the idea of having to go to work and pick such an immense number of coconuts. So the people of Chowra agreed to accept other things for the canoe, for the people of Car Nicobar had many kinds of articles that they had received from white traders in exchange for their coconuts. The two peoples had to agree as to the value in coconuts of the other things. It seems that needles were worth 12 coconuts a dozen, and matches also were worth 12 coconuts for a dozen boxes, but a large piece of Turkey-red cloth was valued at 1600 coconuts.

*Where were coconuts used?*

Until about a hundred years ago chickens were money in the Maldive Islands. The people of Tibet fancied pigs as money, while those of central Asia preferred oxen, and the inhabitants of Assam selected buffalo. Salt has been

money not only in the East Indies but also in China, Burma, and many parts of India. In Turkestan mulberries were money. Among the Karens, a people of Burma, metal drums were good money, and in Calabar bunches of copper wire.

For centuries, glass jars and bottles were used as money in southeast Asia, in the Malay archipelago, and among the near-by islands. A white man who was traveling in Burma wrote: "What money could not secure, empty pint bottles could. For four of these I got eleven eggs and a brood of chickens."

A still stranger kind of money consisted of dried tea leaves, in bricks and cakes, which for a long time were used all over Asia and eastern Europe, from China to Russia.

*What things have been used as money?*

Other odd kinds of money used by people in different parts of the world at various times included the following: In Burma, beeswax; in Siam, hammered brass frying pans; in East Africa, steel cylinders; in Abyssinia, salt bars, bags and quills of gold-dust; in many parts of

Africa, metal rings; in certain Pacific islands, red feathers, adze blades, and rings of white quartz; among the Indians of the Pacific Coast, clam shells on strings, measured by the foot and yard; in some of the South Sea islands, dog teeth and porpoise teeth; in the Malacca Islands, cloves.

*Have many articles been used as money in America?*

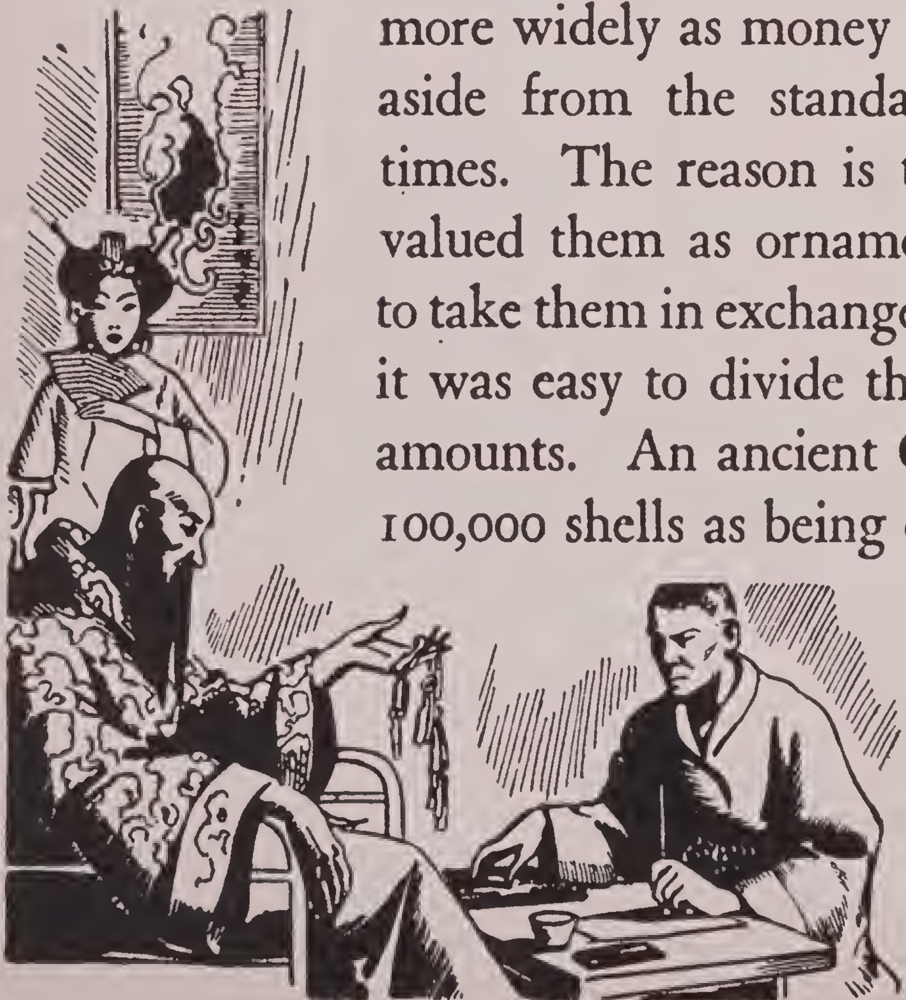
In the British colonies of America and elsewhere, during the seventeenth century, almost everything that one could think of served as money in different places. Among these things were corn, sugar, rum, cotton, wool, mahogany, molasses, ginger, indigo, furs and skins, and dried codfish. In the West Indies the use of sugar and tobacco as money lasted until only a little more than a century ago. In Virginia, during the colonial days of American history, tobacco was a very widely used form of money. Even salaries used to be paid in tobacco.

In ancient China, knives and pieces of shirt-cloth were long in use as money. But these things were troublesome to handle, and over 2,000 years ago there came into widespread use

*How did the Chinese "cash" money come about?*

small bronze models of the original articles. These were known as the *pu,* or shirt money, and the *tao,* or knife money. In order to make the knife money convenient to handle, the blade was made very small, and the end of the handle was made round and pierced with a square hole so that the money could be strung on a cord. Finally, the blade was dropped altogether, leaving round pieces of metal, each with a small square hole in the middle. These became the famous Chinese *cash,* which have been in use for hundreds of years. Perhaps you may have seen some of them. That was the strange way in which China got its first coins.

Shells and beads have probably been used more widely as money than any other articles, aside from the standard money of modern times. The reason is that people everywhere valued them as ornaments, and so were glad to take them in exchange. They lasted well, and it was easy to divide them into large or small amounts. An ancient Chinese book speaks of 100,000 shells as being equal to great riches.



*Chinese knife money could be strung on a cord*

The Indians of North America had a curious kind of money called *wampum*. It consisted of black and white shells, rubbed down, polished, made into beads, and then strung into belts and necklaces. They were valued according to their length, color, and luster, the black being the more valuable. Wampum was used by the white people in trading with the Indians. But its value was destroyed after a time by cheap European imitations.

*Who used bead belts as money?*

There has always been a close connection between money and personal adornment. In the next chapter we shall see the part that this fact played in the selection of gold and silver for the making of coins. Many tribal people today, when they receive gold and silver coins from white traders in payment for goods, punch holes in the coins and make necklaces of them for their wives and sweethearts.

But people who used beads, shells, and the other things that we have been speaking about, as their only money, could not have the sort of business dealings that are a part of the life

*Has money anything to do with wealth?*

of civilized countries today. Even in countries like ancient Egypt, the people did not have nearly so much wealth as we have, and one reason for this was the lack of better money. The invention of more useful kinds of money went along with the growth of production, exchange, and consumption (use) of wealth. For it is with money that business has to be carried on.

## Chapter III

# GOLD AND SILVER COINS

AFTER long experience in using many other substances as means of exchange, it began to be clear that the best material for money was the precious metals; that is, gold and silver.

*Why are gold and silver so desirable as money?*

It is easy to see why gold and silver should be so desirable for use as money. In the first place, they do not "spoil." After many years of use they are still perfectly good. Some people, for instance, own gold and silver jewelry that has been in their families for generations. Gold and silver are valued highly by almost everybody, because beautiful ornaments can be made out of them. Furthermore, they can be melted down into any sizes that are desired. They are always sufficiently scarce to have a high value, and this value, especially that of gold, is steadier than that of most other things that

could be used for money. Therefore, if a man lends a certain sum to another man for a year, if it is payable in gold he can be sure that he will get about the same value back when payment is made. This is very important in civilized countries, where there is much lending and borrowing.

When people saw all these advantages in using gold and silver for money, we might think that they would immediately have invented coins; that is, round pieces of gold and silver in different sizes, stamped with the name of their value, like the coins we know today. But as we have already noticed, coins were not invented until rather late in human history.

*How was gold first used as money?*

Countries of the ancient world, like Egypt, Babylonia, and Assyria, which were great empires with marvelous civilizations, never invented coins. But they used to make beautiful gold and silver ornaments, such as earrings and bracelets, and these ornaments frequently used to pass from hand to hand as money.

In the Bible we read of earrings and bracelets of gold, valued according to their weight. It tells how there was weighed and given to a man named Ephron "400 shekels of silver, current money of the merchants." The shekel was not a coin; it was a certain weight of precious metal by which values were measured.

*Which came first, the alphabet or money?*

It was not until about 700 years before Christ, which was many centuries after the great days of ancient Egypt, that the first coins came into use. That was a long time after the alphabet first appeared, and not far from the same place. And the exact date of the invention of coins is somewhat doubtful, just as is the exact date of the invention of the alphabet. Furthermore, each of these inventions was made by a not very great or powerful people.

The first coins were made somewhere along the western coast of Asia Minor, either by the Lydians or by their Greek neighbors. These first coins, strangely enough, were not made of gold or of silver, but of a mixture of the two. We call such a mixture an alloy. This was a

natural mixture of gold and silver, called *electrum*.

Soon after, however, coins began to be made of pure gold and of pure silver. The Greek coins were very beautiful. You may see some of them in our museums, almost as fresh and handsome today as when they were first made, more than 2,000 years ago.

*Why were coins more convenient?*

It is easy to see why coins are more convenient than bars of gold or silver, earrings, bracelets, and such things. In the first place, they could be made in all sorts of sizes, with the value plainly stamped on each. It would not look very well to have a gold bracelet, that a lady wanted to wear, marked "Ten dollars," for everybody to see. Besides, round flat coins could be neatly piled in stacks, wrapped up, and carried around.

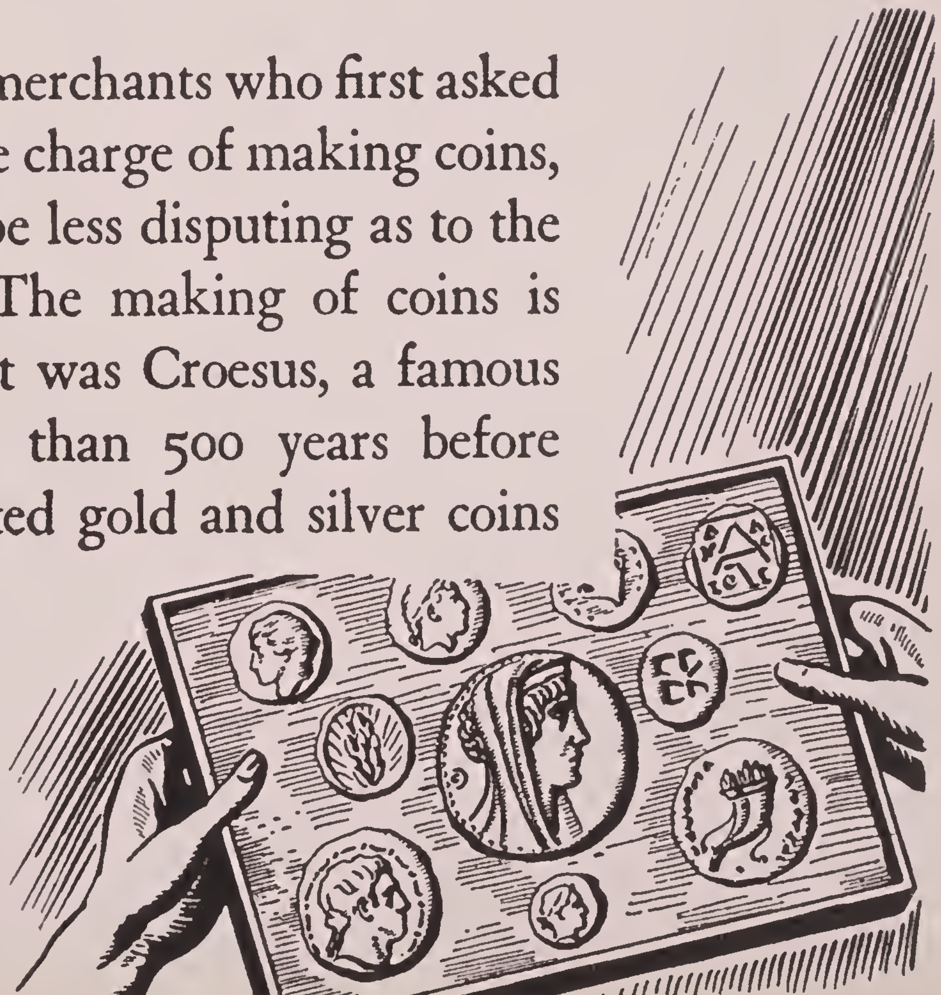
There is another fact that made coins very desirable as money. When the government of the nation made the coins and stamped the value on them, it would mean that you could be quite sure that there actually was the right

amount of gold or silver in them and that it was of the right quality. For it is very easy for dishonest persons to cheapen gold and silver by mixing them with less expensive metals. It is called *debasing* them.

*What is counterfeiting?*

Ever since ancient times, the making of coins has, under ordinary conditions, been a job done by the government. Other people have been forbidden to make coins; because if everybody had the right to make them, nobody could be sure that they were of the proper weight and quality. When people who have no right to make coins do make them, it is called *counterfeiting*. It is against the law, and a person who is caught counterfeiting is punished very severely.

Probably it was the merchants who first asked the government to take charge of making coins, for then there would be less disputing as to the value of the coins. The making of coins is known as *minting*. It was Croesus, a famous king of Lydia, more than 500 years before Christ, who first minted gold and silver coins



*Some ancient Greek coins may be found in museums today*

according to a regular system of weights. The king of Persia, a very powerful country of Asia at that time, soon began minting gold coins, called *darics,* and silver coins, called *shekels.* Many of the little Greek republics in Europe, even before this time, were coining silver. By about the year 400 B. C., the coinage of money had become quite a general custom throughout the civilized world.

*When did coinage of money become general?*

In the Roman Empire, several centuries later, the coining of money was an important part of the government's duty. The empire was so large that *mints*—that is, buildings where coins are made—had to be set up in different places to take care of the local needs. In the reign of the Emperor Diocletian, about 300 years after Christ, there were fourteen mints, one of them in far-away London; and by the time of the Emperor Constantine, not many years later, the number of mints had increased to eighteen.

After the Roman Empire came to an end, there was much disorder throughout Europe. There no longer existed a central government

that could coin money for all the countries that had formerly belonged to the empire. Even after new nations began to grow up, some of the coinage was in the hands of private people.

*What were "clipped" coins?*

The coins made during the Middle Ages were of very much poorer quality than were those of the ancient world. Many of the coins were *clipped*; that is, pieces were chipped off by dishonest persons. There was much counterfeiting also, although the offense was punished with terrible cruelty.

It was not until about the year 1500 that all the coinage of France was controlled by the central government. In Germany for hundreds of years different towns and cities minted their own money.

In modern times the moneys of all the leading countries of the world are coined at the government mints. So everyone has confidence that they are of good quality and accepts them in trade without doubt or hesitation.

The most valuable coins are of gold and of silver. But gold and silver are not the only

metals that have been and still are used for making coins. In the first place, gold and silver are so valuable that they are not suitable for making coins of very small value. A one-cent piece made of gold would be so small that you could hardly see it; even if made of silver, its size would still be so small that it would easily be lost. Therefore, less valuable metals are used for making coins of small value.

*What various metals were used as coins?*

There were iron coins in ancient Greece, just as there were in Japan down to recent times. There have been coins made of lead in some countries of the Far East, as there were in Denmark until 300 years ago. Tin halfpennies and tin farthings were coined in England at one time. Platinum, a rare and very valuable metal, was made into coins in Russia about a century ago. Nickel is still used a great deal for coins of small value in different parts of Europe. Brass coins were minted by the early Roman emperors. Bronze and copper have been used very commonly for low-value coins.

Among the Greeks, the favorite metal for

the higher-value coins at first was silver. But because of its bulk, silver was awkward when large sums had to be carried from place to place. So gold coins for the higher values began to be used; for an equal value in gold would weigh much less, since gold is much more precious than silver. On the other hand, the silver coins of the lowest value were so small that it was troublesome to handle them. So bronze (a blend of copper and tin) began to be used for making coins of low value, the bronze coins for small amounts being large enough to handle without danger of losing them. Bronze is harder than pure copper, and so the coins stood usage well. By the year 359 B. C., gold, silver, and bronze coins were in common use throughout the Greek world.

*Why were gold, silver and bronze coins made?*

In Rome the first coins were of bronze. It was not until about 268 B. C., that a silver coin, the *denarius,* came into use. Still later, gold coins were minted. The Emperor Constantine ordered that from a pound of pure gold there should be minted 72 coins called *solidi.*

During a large part of the Middle Ages, silver was the metal mostly used for coinage, for gold had become hard to get. When trade began to pick up again, after the wars known as the Crusades, gold became more plentiful in Europe. The first important gold coin minted since ancient times was the famous *florin,* which appeared in the city of Florence, Italy, in the year 1252, and before long other gold coins like it were being minted in various parts of Europe.

In England the first regular gold coins were made in 1343. France and Germany had begun to use gold coins somewhat earlier.

*Did the discovery of America increase wealth?*

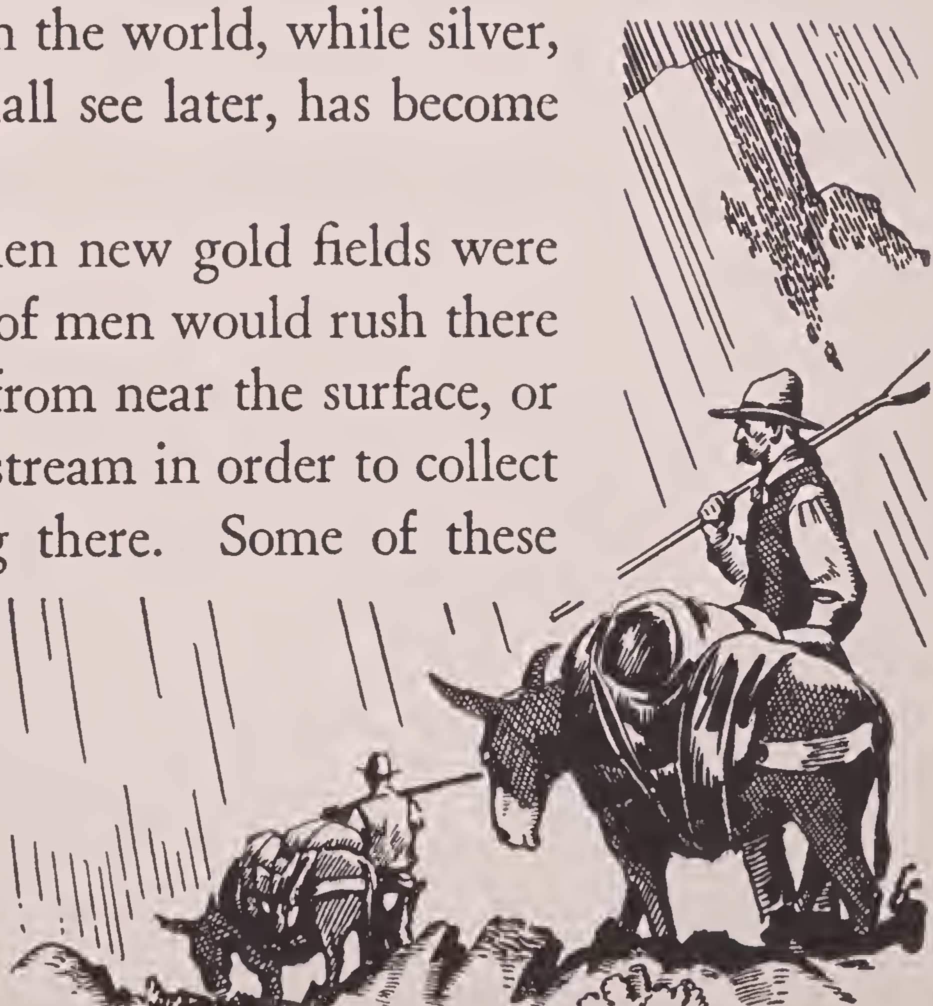
Meawhile, trade was growing so fast that the demand for money was greater than the small supply of gold and silver could fill. Commerce would have been badly crippled if it had not been for the discovery of America by Columbus in 1492. In the New World the Spaniards discovered rich mines of gold and silver, and soon a steady stream of these precious metals was pouring into Europe and helped to make pos-

sible the enormous growth of commerce that then began to take place.

*What happens when gold is discovered?*

In 1849-50, the discovery of gold in California and in Australia added large amounts of gold to the world's supply and played an important part in the great growth of trade during the following half-century. Still again, in 1898, rich gold mines were opened in frozen Alaska. At the present time, the greatest output of gold is from the mines in South Africa. But in spite of all the immense output of gold from these new mines, the world's business has kept needing more and more gold for use as money, and so the value of gold has continued to be very great. It is now the standard money of nearly every country in the world, while silver, for reasons that we shall see later, has become less important.

In the old days, when new gold fields were discovered, thousands of men would rush there and dig out the gold from near the surface, or sift the sands along a stream in order to collect the bits of gold lying there. Some of these



*Men rushed to the gold fields in search of gold*

people became very wealthy after a few weeks or months of work.

But gold is not so easy to get nowadays. In the mines of South Africa, the rock containing the precious metal has to be taken from great depths in the earth. This requires very expensive machinery, and therefore much capital.

Now let us go back and see how business grew up.

## Chapter IV

# HOW BUSINESS GREW UP

PRIMITIVE man knew little about division of labor. Each family lived by itself and produced nearly all the things it needed. People got along very much like that, even in the days when America was a new country, when there were no railroads and many families had to live in the wilderness, far away from towns and cities. In some out-of-the-way parts of the world today there are people that still live almost entirely by themselves.

***Did primitive man need money?***

When things were like that, there was not much need for money, although there might be a certain amount of bartering, or exchanging one thing for another.

But when the division of labor became more common, then money came into use; and as man's wants became more numerous, with the

growth of inventions by which they could be supplied, business began to grow more and more important.

*What was an apprentice?*

For many hundreds of years everybody worked at home. If a man was a shoemaker or a carpenter, for instance, he would have a little work-room in the front or back of the house where he and his family lived. The shoemaker would buy leather from a tanner and make every part of the shoe himself. Generally he had a boy—his own son or the son of some neighbor—helping him and learning the trade. Such a boy was called an *apprentice*. When the boy had spent several years learning how to make shoes, and had grown to be a young man, he would get married and open up a little shop of his own in his home.

There were no machines in those days to turn goods out in wholesale lots. Everything was made by hand. The people who bought the shoes knew who had made them. Therefore, the shoemaker was very anxious that the shoes he made should be of good quality, and

he took pride in his work. For if he did not make good shoes, his customers would go somewhere else.

*What was the guild system?*

During the Middle Ages, in England and other countries, all the men who worked at the same trade came together and formed a sort of society or union known as a guild. The members of each guild were craftsmen; that is, they worked at a trade or craft. There were guilds of different craftsmen—weavers, dyers, goldsmiths, carpenters, and so on.

Each guild member was the master of his own business. He bought the raw materials, he hired his apprentices, and he sold the product. The guilds themselves were very powerful. They had strict rules for their members, who had to see to it that their goods were of standard quality. In return, the guild protected its members in different ways. No person could make or sell goods unless he belonged to the guild in that line. The guilds were interested in education, and founded schools. They also gave money to charity.

All business was in the hands of the guilds for four or five hundred years. Then a change in the way of doing business began. The change appeared first in the cloth-making industry. Men who did not belong to the guilds went into the cloth business. They bought up a supply of raw wool. Then they hired workmen to spin and weave this wool into cloth. They even supplied the workers with the necessary spindles and looms for doing the work.

*What change came about in industry?*

These workers were very different from the guild members. They were not their own bosses. They did not own either the tools or the material that they worked with, and they did not sell the finished cloth. They simply were paid a certain sum of money—that is, wages—for doing the work.

In other words, capital had become separated from labor. By capital, you will remember that we mean wealth that is used in producing more wealth. The master-clothiers supplied the capital and the workers supplied the labor. When the clothier sold the finished goods, of

*The members of each guild were craftsmen; that is, they worked at a trade or craft*

course he made a profit, all of which he kept. This profit was a sum over and above the amount that the clothier had spent for raw materials, tools, the payment of labor, and other expenses.

*Was business still carried on in the home?*

But this system was still very far from the system of business that we are familiar with today. There were no factories in those days. The workers did the work in their own homes. So this way of doing business was called the domestic system, for the word *domestic* means anything that has to do with the home.

Finally, another plan was worked out. All the people living in a certain district, who made the same goods, were gathered into one big central building where they all worked together during the day and went home at night. In the course of time, quite a number of such buildings began to spring up. They were called factories, which means buildings in which goods are made.

The first factories were used for spinning yarn and weaving cloth. About a hundred and

fifty years ago, machines were invented that made it possible for one person to spin and weave a much larger amount than before. But it took a great deal of power to run these machines. So factories were built on the banks of swiftly flowing rivers, where the rushing water was harnessed to wheels that made the machines work.

*Did the steam engine affect business?*

Then the steam engine was invented and improved so that it could be put to doing this work. The steam was produced by heating water, and to heat this water hot fires had to be built. This required a large amount of coal. Then the factories were built close to the great coal mines, so that it would not be necessary to carry the coal long distances, for to do so cost too much money.

It was found that making goods in factories was much cheaper than making them in the workers' homes. The workers put in all their time on the job, and there were men called inspectors to see that the work was done properly. The factories kept getting bigger and

bigger, often with many hundreds of people working in each one.

This new way for the production of goods (industry) was such a tremendous change that it is called *the Industrial Revolution.*

The division of labor was carried to greater and greater lengths. One man no longer made a whole pair of shoes, nor even a large part of one. He made a very small part, and other men made the other parts. By spending all his time on the making of one part, a worker could become very skillful and speedy at his job, and so would all the other workers in the making of the other parts.

*How did factories affect wealth?*

This brought about an immense increase in the amount of wealth that was being produced. Machinery and factories made possible what is known as mass production. Great industrial cities grew up in which there were hundreds of factories and thousands of workers.

The owners of the factories were all the time seeking new markets—that is, places where goods are bought and sold. The factories pro-

duced more goods than could be sold in the home markets. So the producers, or manufacturers, sent men to foreign countries to find new markets. This made commerce grow as it had never grown before.

*Were the first factories like those of today?*

At first, the workers in the factories had very hard lives. They had few rights, they were poor, they had to work long hours, and many of the factories in which they worked were dark and unhealthful places. Even small children worked in the factories. After a while, the workers came together and formed groups called *labor unions.* They demanded more pay, shorter hours, and better working conditions. By getting together as groups they were able to make better bargains for their labor. But there were often bitter disputes between the workers and their employers. The men would sometimes strike—that is, all would stop work until they got what they wanted. This at times led to much disorder and fighting. Some employers honestly tried to deal fairly with the workers. The government also passed laws to

make better conditions for the workmen. Such laws said that factories should be well-lighted and healthful, and that dangerous machines should be so made that they would not injure the workers.

*How did they change?*

As a result of all this, factory workers today are much better off than they used to be in the old days.

Chapter V

# HOW BUSINESS IS MANAGED

MACHINERY, more and more division of labor, and mass production, began to produce wealth on a bigger scale than ever before in the history of the world.

*Why cannot one man own a large business?*

Of course, it cost a huge amount of money to build a large factory, to buy machinery to put in it and fuel to run the machinery, to buy the raw materials necessary for making the finished goods, to pay the workers their wages, and then to sell the goods. Besides, there would be many clerks working in the office, writing letters and keeping the accounts, and they had to be paid wages also.

All this money had to be paid out for some time before any money came back from the sale of the goods. One man would very seldom be rich enough to provide so much money

—that is, the capital needed by the business. It had to be raised in some other way.

So instead of there being only one owner of a large business, there would be a number of them, from two or three (if the business was not very large) up to hundreds and even thousands. As time went on, there came to be three different ways of carrying on a business that could not easily be owned and managed by one person.

*What is a partnership?*

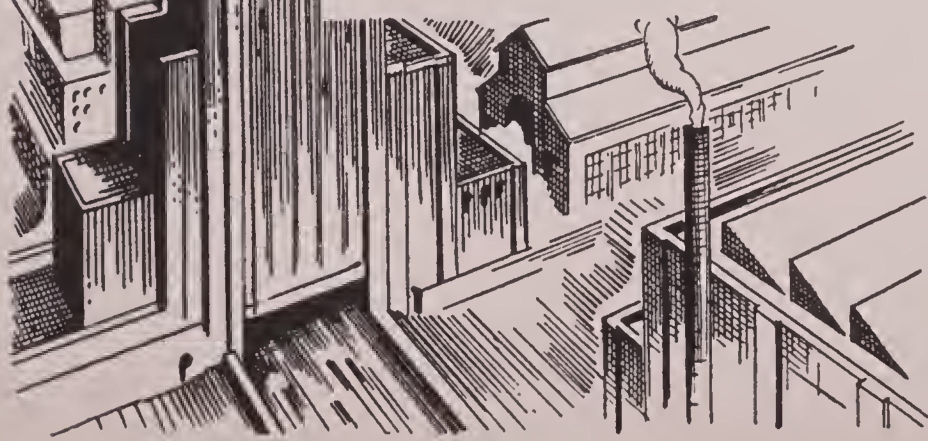
The first of these ways of doing business is called a *partnership.* In a partnership, two or more men come together and put their money into a business. They have equal shares in the business and are equally responsible for it. If the business makes a profit, the partners share it equally. On the other hand, if the firm fails in business, and only one of the partners has any money of his own left, then the people to whom the firm owes money, whom we call the creditors, may make that one partner pay all the debts.

Naturally, the men who form a partnership

should know each other very well; they should be men in whose honesty and ability each of the partners can have confidence. If one of the partners quits the partnership, or if one of them dies, then the partnership comes to an end. But the partners may take in new partners from time to time, if they choose to do so.

*Is the corporation a good form of business?*

But partnerships are not suited to very large businesses. So another form of doing business was invented. This is called the *joint-stock company,* or the *corporation*. Most large businesses today are owned by corporations. A corporation is very different indeed from a partnership. In the first place, there are usually hundreds or even thousands of owners, who are called *stockholders*. The ownership of the company is divided into shares, and these shares are sold at so much per share. One person might own one share, another person five shares, and another person 100 shares, or any other number. These shares are called the stock of the company. The ownership of a share of stock gives the owner the right to a

*Most large businesses are owned by corporations*

share of the profits. Each stockholder also has a right to vote in the election of directors, as the men are called who actually control the business. If a man owned one share, he would have one vote, if he owned fifty shares, he would have fifty votes, and so on.

*How is a corporation controlled?*

The stockholders, as we have just said, elect the directors. There may be any number of them. All of them together are known as the Board of Directors. They hold meetings from time to time to decide important questions. They also elect the officers of the corporation, such as a President, a Vice-President, a Secretary, and a Treasurer. These officers have direct charge of the business, usually giving all their time to it every day, and being paid salaries for the work they do. They also hire the heads of departments, and these men in turn hire the workmen and other employees and see that the work in the factory or shop is carried out.

In a corporation the stockholders are not each responsible for the debts of the business. The corporation is treated by the law as if it

were a sort of person itself. If it fails, the stockholders lose only their stock.

People who own stock can also sell it, if they wish to do so. In fact, shares of stock are being bought and sold every day by different people. From the profits of the business are paid *dividends*. They are paid to the persons who own the stock at the time, in proportion to the amount of stock that they own. If a man owns 5 per cent of the stock, then of course he gets 5 per cent of the dividends.

*How is a corporation formed?*

In order to form a corporation, the men who are interested in the matter have to apply to the Secretary of State of some one of the forty-eight states in the Union for a paper called a *charter,* which gives permission to these men to form a corporation. There are certain rules that they must follow in doing so. Then the corporation may engage in business. The corporation usually has certain laws of its own, known as by-laws, which its officials have to obey.

The stockholders often do not even know each other personally. They may be scattered

all over the United States. In fact, some of them may live in foreign countries.

Corporations are formed for carrying on all sorts of businesses. These include manufacturing industries of every kind, railroads, steamship lines, banks, retail stores, insurance companies, and so on.

Corporations also may be formed for carrying on public services which do not seek to make profits, such as colleges, universities, hospitals, and societies of various kinds.

*What is a trust?*

Many corporations in commerce and industry become exceedingly rich and powerful. Because of their great wealth and power, it sometimes has happened that corporations have tried to crush out weaker companies in the same line, in order to control everything themselves, and so in some cases to make the public pay higher prices. That is called getting a monopoly of a certain kind of business. It might be that several great corporations would join together for that purpose. Such a combination is called a *trust*. In order to prevent that, the United

States has passed laws against it, known as anti-trust laws. The government has said that it is wrong for corporations or others in the same line of business to get together and "fix" prices that everyone will have to pay for goods.

*How are goods given a price, or value?*

The *price* of goods is simply their value in exchange. It is the amount of money that we have to pay when we go to the store to buy something. This value is always expressed in terms of money—for instance, fifty cents, or five dollars. And it must apply to a certain definite amount or quantity of goods (of a given quality or grade), such as a pound, a quart, or a dozen. The prices of most things are changing all the time. These changes are due to a great many causes, but they are primarily governed by what we call *the law of supply and demand.* If there is a large increase in the supply of anything, and other conditions remain the same, the price will go down. But if there is an increase in the demand, so that more people want to buy, and other conditions again remain the same, then the price will go up.

Before leaving this subject we must glance very briefly at another way of doing business; this is the *coöperative society*. It is a newer plan than the partnership and the corporation. *Coöperative* simply means "working together." In a coöperative society the people who are actually engaged in the business also own it. They choose the persons who manage it. In a coöperative society each person ordinarily has one vote, regardless of the amount of money that he has put into the business. There are not many coöperative societies now, but their number is increasing. They have been more successful in England than in America.

*What is a coöperative society?*

Of course, too, there are still many partnerships in the business world, and there are also businesses owned and managed by one person, such as little grocery stores and candy stores.

Besides the manufacturers (producers) there are many people called retailers. Retailers sell goods directly, in small quantities, to the persons who use them. They own the stores where we do our shopping. Some retailers, the mail

*Who are the retailers?*

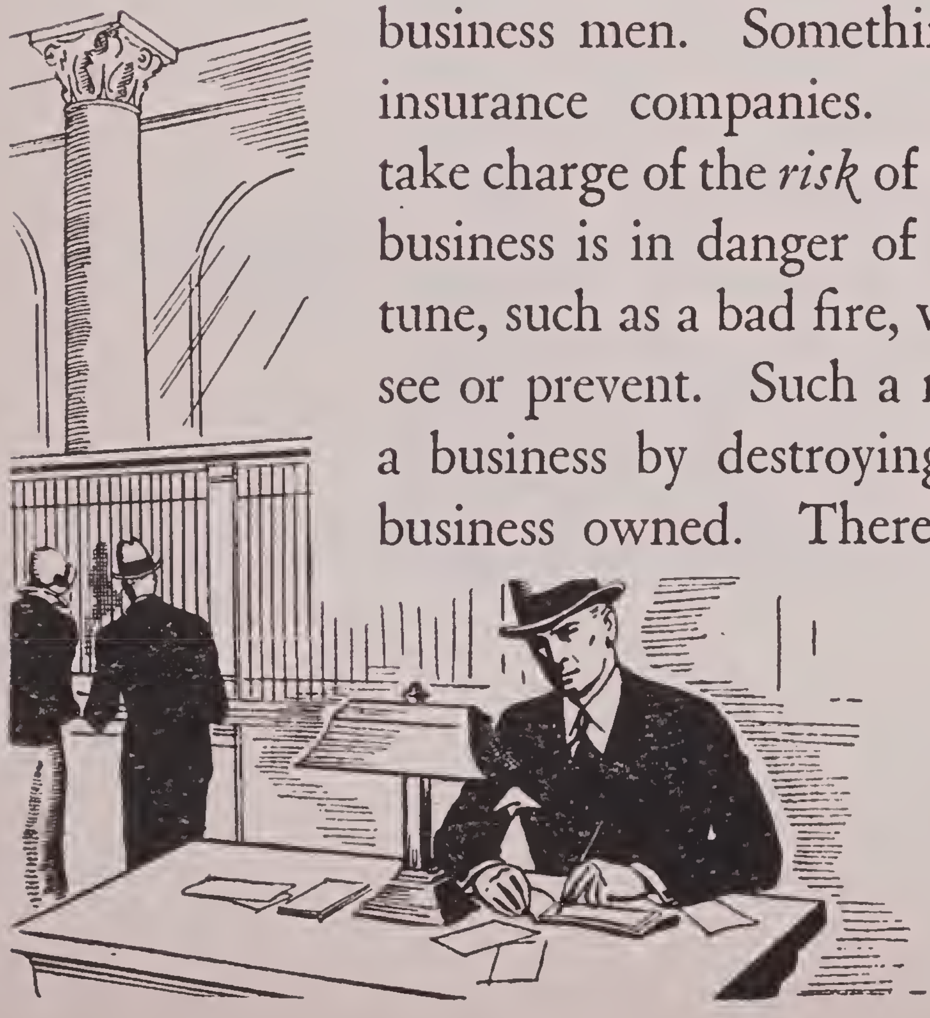
order houses, carry on large retail businesses by parcel post.

*What do the brokers do?*

The retailers generally do not buy their goods directly from the manufacturers. They get many goods from dealers known as wholesalers, jobbers, or brokers, who buy the goods in large quantities from the producers and sell them in smaller quantities to the retailers. They can afford to keep larger stocks of goods on hand than can the retailers.

These retailers and other merchants are sometimes spoken of as middlemen, because they stand between the producer and the consumer —that is, the person who uses the goods.

We shall see a little later how the banks help business men. Something like banks are the insurance companies. Insurance companies take charge of the *risk* of doing business. Every business is in danger of meeting some misfortune, such as a bad fire, which no one can foresee or prevent. Such a misfortune might ruin a business by destroying everything that the business owned. Therefore, if a corporation



*Many checks are written every day*

faced this risk every day, people might be afraid to buy stock in it and banks would be afraid to lend it money.

*Is an insurance company a help to business?*

The insurance company, in return for a small payment of money, agrees to take charge of this risk. So the owners of a factory or other business will buy fire insurance, to the amount, for instance, of $100,000. Then if the factory should happen to be burned down, the insurance company will pay the owners $100,000, and this money will enable them to build a new factory and keep the business going. The insurance company can afford to do this, because many other persons also buy insurance from it, and there are only a few fires. But no one is sure that his building may not burn down; so most people in business protect themselves from the risk of heavy loss, by buying insurance.

## Chapter VI

# THE STORY OF COMMERCE

COMMERCE grew naturally out of local trade. By *commerce* we simply mean trade carried on between places that are far apart. Trade between neighbors gradually led to commerce with outsiders. Here again, people did not realize that commerce was a good thing and so decided to have commerce. Like many other things, it grew up because it was helpful.

*How did commerce grow?*

For a long time, trade was carried on within each little group or tribe. But after a while trade spread out farther and farther, so that different groups and tribes, and at last different countries, were trading with each other. Trade between different parts of the same country we call domestic commerce, and trade between entirely different countries we speak of as foreign commerce.

But why should the people of one country want to exchange things with the people of another country? The answer is, for two reasons: first, because one country may have a very different climate from another country, and so it cannot raise certain fruits and vegetables. But it may have some things that the other country lacks; for instance, iron and coal. So each country exchanges the things that it has more of than it needs, for other things of which it has none or not enough.

*Why did people want to trade?*

Besides, the people of one country may have special advantages in making certain goods, so that they can make them better and more cheaply than the people of other countries can. Naturally, it will be worth while for the people of other countries to buy those things from the people of that country.

Even in so large a country as the United States, where there are many different kinds of climate, there are lots of things we like to eat and drink that we have to get from other countries. How strange life would seem to us if

we did not have Brazil to supply us with coffee and China to grow tea for us! And how badly off many other countries would be if they could not get American cotton, machinery, and such things!

When commerce began to become an important business, a special class of men gave all their time and attention to it. They were called merchants. At first, a merchant would travel around from one part of the country to another, with a pack of goods on his back or on the back of a horse, a donkey, or a camel. He would go from town to town, selling his goods and buying more goods to sell in other places.

*What part did the fairs play?*

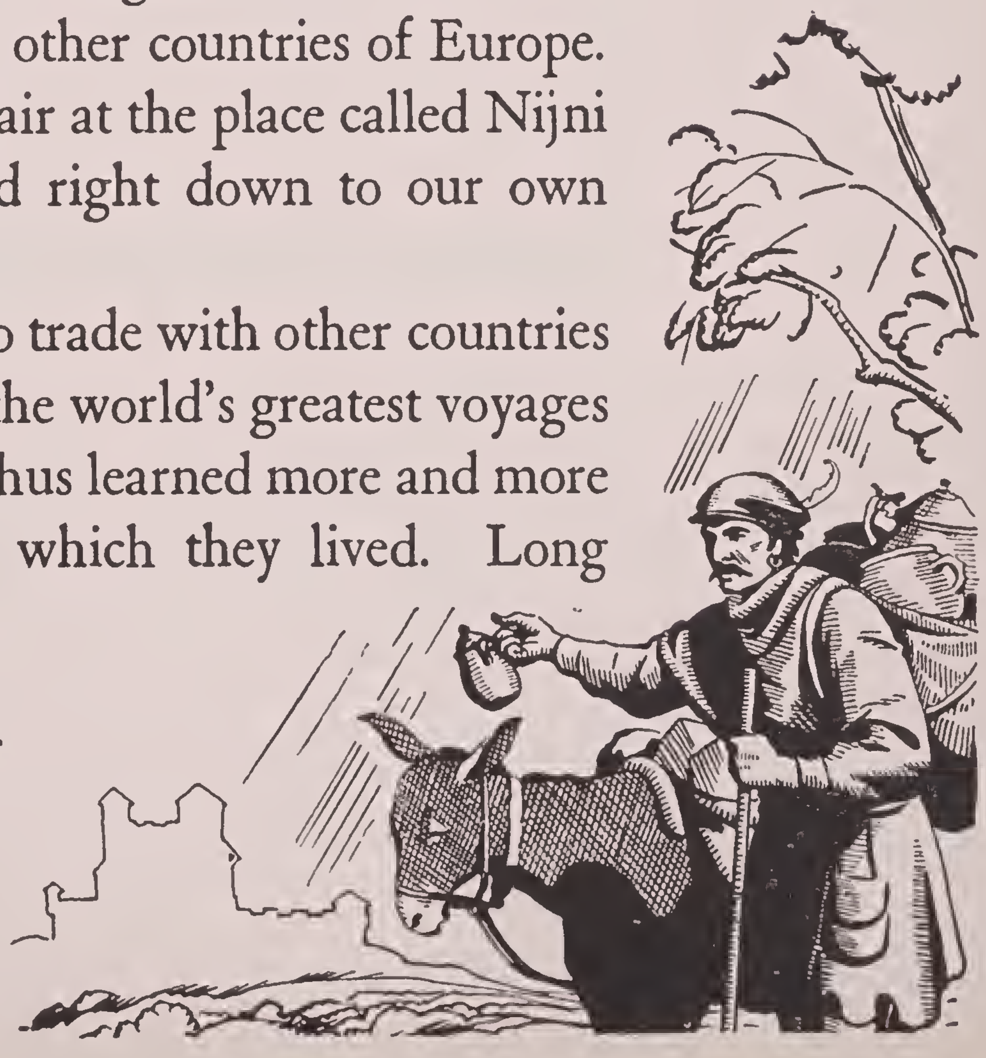
Then there came the idea of holding fairs. Once a year the merchants from all over the country would come together at a certain place to sell their goods. People who wanted to buy goods would travel to the fair, sometimes long distances. Then they could buy all sorts of different things at one time and in one place, instead of having to wait for the merchants to visit them.

These fairs were held at some convenient place, generally on the banks of some river, because it was cheaper and safer to travel by water and also to carry goods in boats. We still speak of making *shipments,* even when we have railroads carry our goods for us, on land.

*Where was commercial law first used?*

Sometimes the places where these fairs were held grew up into important cities. When so many merchants were gathered in one place, and there was a great deal of buying and selling, there had to be rules that everyone obeyed. It was at these fairs that commercial law, which today gives us rules for all our business dealings, first began to be used. In England there were many places where these great fairs were held, just as there were in other countries of Europe. In Russia the great fair at the place called Nijni Novgorod has lasted right down to our own days.

It was the desire to trade with other countries that led to many of the world's greatest voyages of discovery. Men thus learned more and more about the earth on which they lived. Long



*Merchants carried their goods about on the backs of donkeys*

before the time of Christ, the Mediterranean traders made voyages to England in order to get cargoes of tin from Cornwall, where there were rich mines of that metal. Hundreds of years later, the Portuguese sailed around Africa, and Columbus set out on his voyage that resulted in the discovery of America, because they wanted to find new routes to India and China, so as to trade with those countries and bring back to Europe such things as silks, tea, and spices.

*Has commerce helped civilization?*

Commerce helps to keep countries at peace with each other, especially when they need each other's products. War interrupts commerce and the nations on both sides suffer. Then, too, to carry on commerce successfully, people need to know how to write and to do sums in arithmetic, and many persons want to learn foreign languages. It was a trading people, the Phoenician merchants, who first spread the use of the alphabet.

At first, the means of carrying goods were very crude. On land, as we have already no-

ticed, packs of goods were carried on the backs of men and of animals. As the roads were often poor, transportation was slow and difficult. Worse still, in many places robbers were lying in wait for the merchants in order to rob them. It was easier and much cheaper to transport goods by water. But the boats in early days were small and not very seaworthy, and as there were no compasses, by which boats could be guided, it was not safe to venture far from land for fear of getting lost on the vast wastes of the ocean.

*Why was it hard to carry on early trade?*

Things were like that for a long time. But at last good roads began to be built on land, and travel was made safe. Larger boats, too, were built, and the use of the compass made it possible to undertake voyages across the ocean without danger of getting lost.

For hundreds of years more, however, the goods that were exchanged in commerce had to be articles that were rather small in bulk and of high value, because transportation was still so expensive that it did not pay to ship big,

heavy articles, of small value, for long distances, as the freight charges would be more than the goods were worth.

The articles exchanged in commerce, in those days, were mostly luxuries; that is, very valuable things that were light and took up small space—things that wealthy people wanted in order to make life more enjoyable. Ordinary things, such as most articles of food, common clothing, building materials, and so on, had to be produced near the places where they were to be used.

*How was trade built up?*

Today, that is all changed. When a way was found to make steam do work for man, the cost of transporting goods became very much less. A long train of cars loaded with freight can be pulled by a locomotive for hundreds of miles at a cost so low that all kinds of bulky goods can be moved long distances. The cost of carrying goods over the water was reduced still more when small wooden sailing vessels were replaced by great iron steamships.

When transportation by land or by water

was very slow, only goods that would not "spoil" could be exchanged in commerce. But that was changed when swift steamboats and railroads were built, and still more so when a way of preserving food products by means of "cold storage" was invented.

*Is commerce important today?*

Today the whole world is bound up in a network of commerce. For no country on earth produces everything that the people of that country need and want. Take, for instance, so common a thing as rubber. Without rubber we could have no automobile tires, no overshoes, no waterproof raincoats, and none of a thousand other things made of rubber that we use in our daily life. But not a bit of rubber is grown in the United States or in other countries with a temperate climate; for the rubber tree can grow only in the hot climate of the tropics.

Some countries, such as England, cannot raise enough food to feed all their people. If commerce were to stop, millions of people in those countries would be starving in a very short

time. But England and other countries produce larger quantities of manufactured goods than their people need, and so they send these things to other countries in exchange for food.

*What is a tariff?*

Commerce is a good thing; as a rule, the more commerce a country has, the more prosperous it is. But many countries, like our own, have laws called tariffs, so that most of the foreign goods coming into the country have to pay a certain tax, known as customs duty. The reason for this is to protect the industries within the country. It may be that other countries can make the same goods more cheaply, because raw materials are cheaper or labor is paid less money, and it is feared that if there were no tax, these foreign goods would flood the country and crowd out the goods made at home. But some people think it would be better if there were no tariffs and trade were free everywhere. That is a question that has not yet been settled in a way that everybody considers right. England, for instance, takes the other side and practically has free trade.

England was able to adopt free trade in 1846 as a result of the Industrial Revolution. At that time the English began to make more goods than they could use at home, so they began selling the goods they could not use to other countries. At the same time, as these goods were made very cheaply, English cities did not have to fear the selling of cheaper goods which had been brought in from other countries. Thus her industries did not need protection. However, England does collect some taxes from such goods as tea, coffee, tobacco, and liquors.

*Why has England free trade?*

## Chapter VII

# WHAT THE BANKS ARE FOR

NUMEROUS banks are found in every city. Usually they are housed in stately stone buildings. In these buildings the bankers do their business. It is an important business. Without it, the world would have a hard time.

*What did the first banks do?*

A banker is a dealer in money or credit. The word *bank* means "bench," because the early bankers in Italy, hundreds of years ago, used to sit at little benches in the market-place, changing money for the people. Different cities in Italy had their own coins, which were not like those of other cities. So when people went from one city to another, they had to exchange their money for the money of the other city, so that they could buy things in the shops. For a small charge, these bankers exchanged one kind of money for another.

They also received money from people for safe-keeping, and out of this money they made loans. Besides this, they began to sell drafts, which were pieces of paper which could be exchanged for money. In those days, traveling on the roads was very dangerous, for there were many robbers lying in wait for travelers, especially if the travelers were believed to be carrying money.

*How did banks help travelers?*

So when a man in a certain city wanted to send some money to a man in another city, he would go to his banker, give him the money, and received from him a little piece of paper, called a draft, which was an order on a banker in the other city to pay a stated sum of money to the person named in the draft. For a banker in one town kept money on hand with bankers in other towns. Then the man would take the draft and send it to the man in the other city, who could at once go to the bank in his own town and get the money.

Then there was no danger of losing the money, because even if the draft was stolen

by robbers it would do them no good, since the bank would only pay the money to the person whose name was written on the draft.

*Did banks help increase business?*

The first banks that were much like the banks of today were the Bank of Amsterdam, in Holland, and the Bank of Hamburg, in Germany, which began to do business about 300 years ago. But those early banks did not do nearly so many things as banks do today. The main thing that they did was making loans, usually to merchants who needed money for carrying on their business. In return for a loan, a merchant had to pay the bank a sum of money called interest, at a certain per cent. *Per cent* is a short form of a Latin phrase, *per centum,* which means "by or in the hundred." Five per cent, for instance, means five one-hundredths (5/100). So the interest on $100.00 at five per cent would be $5.00 a year.

When a bank makes a loan to a merchant, it is said to be giving him credit, because it trusts him to repay the amount with the necessary interest.


*Every city has many banks housed in stately stone buildings*

People who deal with the bank deposit their money in it for safe-keeping. In commercial banks they have the right to make out checks against their deposits. Checks are little pieces of paper, ordering the bank to pay out certain sums of money to some person. Business men find it more convenient to pay bills by check than by money, because the checks can be sent through the mails in envelopes, just like letters. Again, if a check is lost or stolen, no harm will be done, because the bank will not pay the money except to the proper person. However, a person receiving a check may order the bank to pay it to some other person. But he must sign his name on the back first; this is called "endorsing" it.

*What are checks?*

The rightful holder of a check can go to the bank and get coin—gold or silver—for it if he wishes. But in most cases he merely hands the check to his own bank, and gets the amount added to his account. Then his bank collects the amount from the other bank.

Every day many checks are being made out,

*How do banks carry on business?*

payable at the various banks in the city. Each bank, at the end of the day's business, could simply count up the checks it had received, drawn against other banks, and the checks drawn against itself and presented at other banks for collection. Usually the difference between the amount this bank owed other banks and the amount other banks owed this bank would be rather small.

Besides, if Mr. A and Mr. B both have accounts at the same bank, and Mr. A sends to the bank for "deposit" a check given to him by Mr. B, then the bank simply subtracts the amount from Mr. B's account and adds it to Mr. A's account, and no money has to be paid out.

So the banks found that it was not necessary to keep on hand enough gold and silver to pay every check. If the people had faith in the honesty of the bank, it would be necessary only to keep enough gold and silver to pay out the money that was actually wanted by its customers. The rest, you see, became simply a matter

of bookkeeping, transferring sums from one man's account to another's.

For this reason, the amount of money that is represented by checks is far greater than the actual gold and silver and other kinds of money actually held by the banks. Checks are not real money, but they do the work of money. If we did not have them, business would be seriously crippled, for there is not enough actual money to carry on the huge amount of trade going on in the world today.

*What kinds of banks are there?*

In the United States we have several kinds of banks. For instance, there are the national banks, which do business under the laws of the United States Government, and there are state banks, which do business under the laws of the various states. The laws are very strict about how banks shall be run, so that the people who deposit money in them will not run the risk of losing it.

Most national and state banks are called commercial banks. That is to say, their customers are mostly business men and business houses,

such as corporations. But the national banks do something that state banks cannot do. They can issue bank notes. A bank note is a kind of paper money. We shall look at other kinds a little later. Many of our five-dollar bills are notes issued by national banks. These notes are simply promises to pay the persons who hold them the amount of money printed on the notes. For every bank note that it issues, the bank must hold an equal amount of valuable paper called United States bonds.

*What are bank notes?*

Every business house needs money to carry on its dealings. Some of this money it has to borrow from a bank, and it then repays the loan from the money it gets out of the business that it does. Such loans are generally for a short time—one, two, or three months. The bank likes to get its money back at frequent intervals. This is called keeping its funds liquid.

Suppose that a business man wants to borrow $1,000 for three months. He goes to the bank and tells the banker of his need. If the banker believes that the man has a good reason for seek-

ing the loan, and that he will be prepared to repay it when due, he will lend him the money. Generally he will simply "credit" the man's account with $1,000. In return for the loan, the borrower gives the banker a note, which is a promise, signed with the borrower's name, to repay the money, with interest, at the end of three months.

*What is meant by security?*

If the man does not repay the loan as promised, the banker can take the matter into court, and get what is called a judgment against him. Then the banker can take some of the man's property and sell it, so as to get back the money due him. But that is very troublesome. So generally the banker when he makes the loan asks the borrower to give "security." By this, we simply mean that he hands over to the banker some of his property, such as stocks and bonds, to hold until the loan is paid back.

All business houses keep their money in the bank. When it is necessary to pay a bill, the man who has charge of such matters—the treasurer or the cashier—writes out a check.

*How do banks settle accounts with each other?*

In a large city, where there are dozens of banks and thousands of checks are being written every day, each bank receives from its customers many checks on other banks. So a way had to be worked out for all the banks to settle their accounts with each other. That is now done at a place called a clearing house. Each bank brings to the clearing house the checks that it received the day before, which are to be paid by the other banks, and it gets from the other banks the checks that they have received, which it must pay. For instance, let us say that the First National Bank has $100,000 in checks against the Merchants' State Bank, and the Merchants' State Bank has $95,000 in checks against the First National Bank. Then the Merchants' State Bank simply gives a check for $5,000 to the clearing house, which then pays the First National Bank, and the matter is settled. All the other banks in the city deal with each other in the same way.

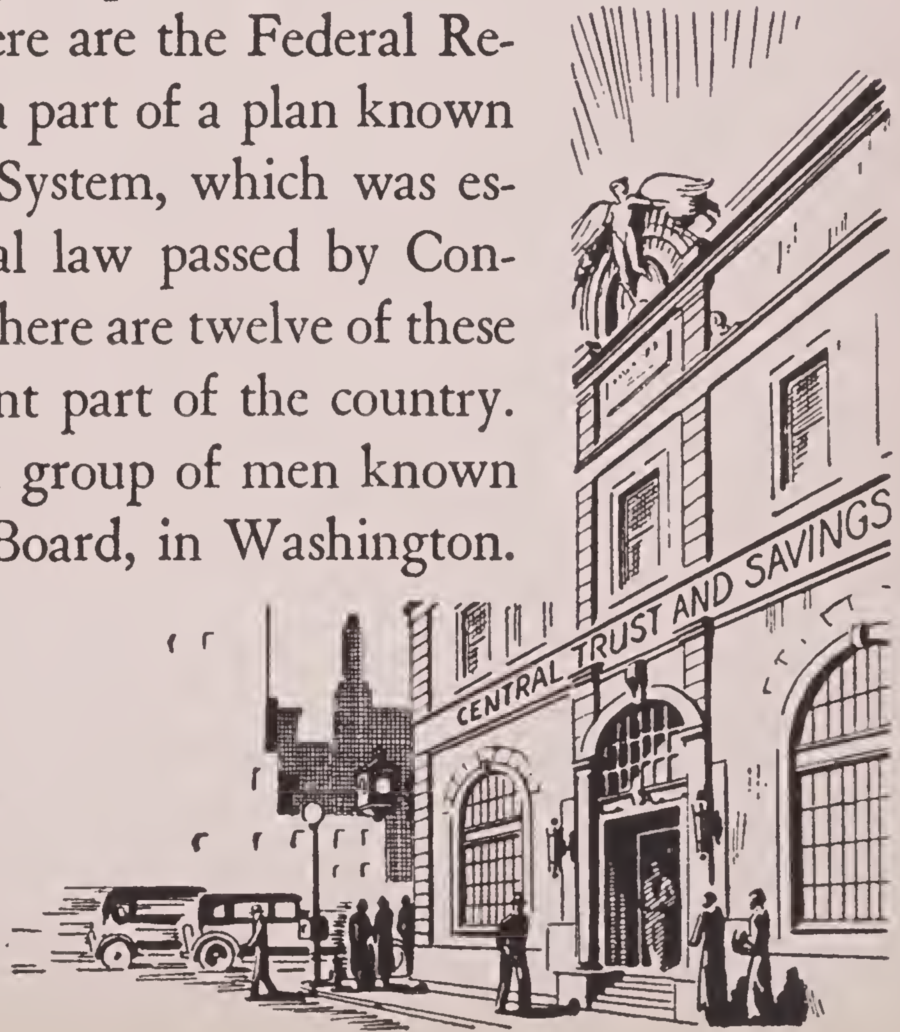
There are also savings banks. A savings bank may be a separate bank or a department of a

commercial bank. People who put their money in savings banks cannot draw checks, although they can take all or a part of their money out whenever they need it. Savings banks "invest," or loan, these funds, so as to make money for themselves and the people who put the money in the bank and who are entitled to "interest."

*What do trust companies do?*

Another kind of bank is the trust company. A trust company makes a specialty of taking care of the estates of people who die, and who, in their "wills," want the wealth that they leave managed according to their wishes. There are also investment banks, which are interested in organizing and reorganizing large businesses that need unusually large capital.

Last but not least, there are the Federal Reserve banks. They are a part of a plan known as the Federal Reserve System, which was established under a special law passed by Congress some years ago. There are twelve of these banks, each in a different part of the country. They are managed by a group of men known as the Federal Reserve Board, in Washington.




*Savings banks invest other people's money*

The Federal Reserve banks give aid to the other banks of the country when it is needed, so as to keep the entire banking business in a healthy condition.

*Do the Federal Banks issue money?*

The Federal Reserve banks also issue notes, like the national bank notes, that are used as money. There are two kinds: Federal Reserve bank notes, which are backed by United States Government bonds bought from national banks; and Federal Reserve notes, backed by gold and by the promissory notes of business houses (commercial paper), held by the Federal Reserve banks. There is an immense amount of Federal Reserve notes in use today.

Chapter VIII

# THE GOVERNMENT AND OUR MONEY

ALL THE money that is used in our country is made by the United States Government. The coins are made in buildings known as mints, of which there are several, located in different cities, and the paper money is engraved at a place called the Bureau of Engraving, in Washington.

*Where is our money made?*

It is Congress, our chief law-making body, that draws up the rules in regard to the making of the country's money. Congress decides what coins shall be minted; it also decides just what shall be the purity of the metal and the weight of the coins.

Gold, for instance, in its perfectly pure state, is so soft that coins made out of it would not wear well. So the law says that one-tenth part of copper shall be mixed with the gold. The

gold still looks about the same, but it is somewhat harder.

Anybody who owns a quantity of gold may bring it to the mint, and the United States Government will make it into coins for him, free of charge. The governments of other countries generally do the same thing, though sometimes there is a small charge for performing the service. At one time there was such a charge in the United States, amounting to one-fifth of a cent for each dollar, for the minting cost.

*Can anyone have gold made into coins?*

People may bring to the mint the gold that they have, even if it is not of the right standard of purity; in fact, it may be gold ore, which is gold mixed with rock or other minerals, just as it comes from the mines. The mint will take this gold and, for a small charge, will *assay* it (find out how pure it is), *refine* it (take out the impurities), and add the necessary *alloy* (mixture of copper), so that it will be the right kind of gold for making coins. Then the mint will make the coins and give them to the man who brought in the gold.

Gold is now the standard metal used in our coinage, as it is in most of the other countries of the world.

When the mint makes a ten-dollar gold piece, which the law says must contain 258 grains of gold, the fact that the Government stamps the coin and says that it is ten dollars, does not make it worth any more than the same amount of the same kind of gold *bullion* (uncoined gold). Its value is exactly the same.

*What gives value to gold?*

This does not happen because of some law passed by Congress; it happens because of what we call *economic law.* Let us see what that means. Of course, not all our gold is made into coins. Much of it is constantly being used for making jewelry, gold leaf, and even fillings for teeth. If gold coins should become scarcer, they would be more valuable than the same amount of gold bullion, because of that law of supply and demand which, as we have seen, controls price, which is the value of things expressed in terms of money. Then everybody who owned gold bullion would rush to the mint to have it

made into coins, because the same amount of gold in coins would be worth more.

But then gold bullion would be scarcer and gold coins more plentiful. Again the law of supply and demand would begin to work, but in the opposite direction. The value of gold bullion would be greater than the value of the same amount of gold in coins. So people would take their gold coins and melt them down into bullion, thus bringing up again the value of the coins. This will go on until the value of gold coin and gold bullion settles to the same level.

*Why is silver not used as a standard metal for coins any more?*

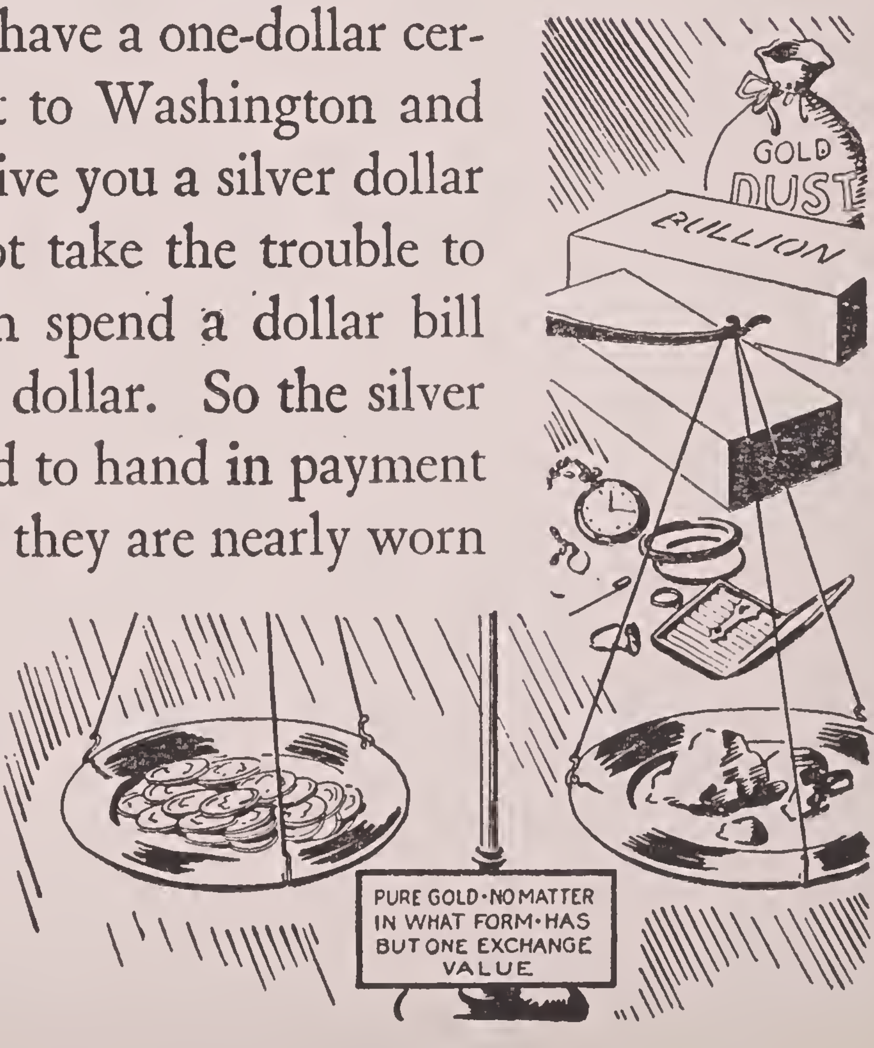
In the past, silver was also used as a standard metal for coins in the United States. But this is no longer true; the United States has made gold the single standard for money. Having two standards was found to be very troublesome, because the value of the two metals, in relation to each other, is constantly changing.

But we still have a number of different silver coins in daily use as money, and nobody refuses to accept them. There are many silver dollars

still in use, although none have been coined since 1905. They are so big and heavy that most people would prefer to have a one-dollar bill, which is very much easier to carry. Most of them are kept in the United States Treasury. The amount of silver in the silver dollar is now worth less than 50 cents. But it still will buy a dollar's worth of goods, because the Government strictly limits the number of them, and is willing to exchange them for gold. Of course people who own silver cannot take it to the mint and have the Government make it into dollars for them.

*Is the silver in a silver dollar worth a dollar?*

In place of the silver dollars in the Treasury, the Government prints bills, which are called silver certificates. If you have a one-dollar certificate, you could take it to Washington and the Government would give you a silver dollar for it. But people do not take the trouble to do that, because they can spend a dollar bill just as they could a silver dollar. So the silver certificates pass from hand to hand in payment of debts of all kinds, until they are nearly worn




*Pure gold has but one exchange value*

out, and then the Government prints new ones to take their place.

*What money is called token money?*

Besides the silver dollars, we also have silver half-dollars, quarter-dollars, and dimes. They have less silver in them, in proportion to their size, than has the silver dollar. But they keep their value, like the silver dollar, because the Government stands back of them and will exchange them for other money if asked to do so. They differ from the silver dollar in one fact; that is, silver dollars are legal tender, good for all payments up to any amount, while the smaller silver coins are legal tender in amounts only up to ten dollars. Such money is sometimes called *token* money, which means that it takes the place of standard money.

These coins are, of course, very useful for making small purchases and paying small debts. In fact, we must have them for such uses. But if someone owed you $100 and wanted to pay it to you in dimes, that would make it very awkward for you. It would take 1,000 dimes to make $100. So for any amount over ten

dollars you can insist that a person shall pay you in standard money.

There are two other kinds of token money. These are the five-cent piece, known as a nickel, though it is really three-quarters copper and only one-quarter nickel; and the one-cent piece, which we sometimes call a copper, and which is 95/100 copper and 5/100 tin and zinc. A person does not have to accept more than twenty-five cents' worth of nickels or coppers. But even the nickel and the copper are very useful servants. How could we get along without one or the other when we wanted to telephone or to buy a newspaper?

*Are small coins useful?*

There are seven kinds of paper money in use in our country. We have already mentioned some of them. First, we spoke of the bank notes that are issued by the national banks; and we spoke of the two kinds of notes issued by the Federal Reserve banks. And we have just said something about the silver certificates.

There are also bills known as gold certificates.

The United States Treasury keeps a large amount of gold coin and bullion in its vaults. In place of this gold, it issues bills. These are the gold certificates. You have perhaps seen some of them. They have yellow backs, and are of different values—from ten dollars up—as printed on the face. Most people prefer the paper certificates, because they are easier and safer to carry, and as valuable as the actual gold.

*What are greenbacks?*

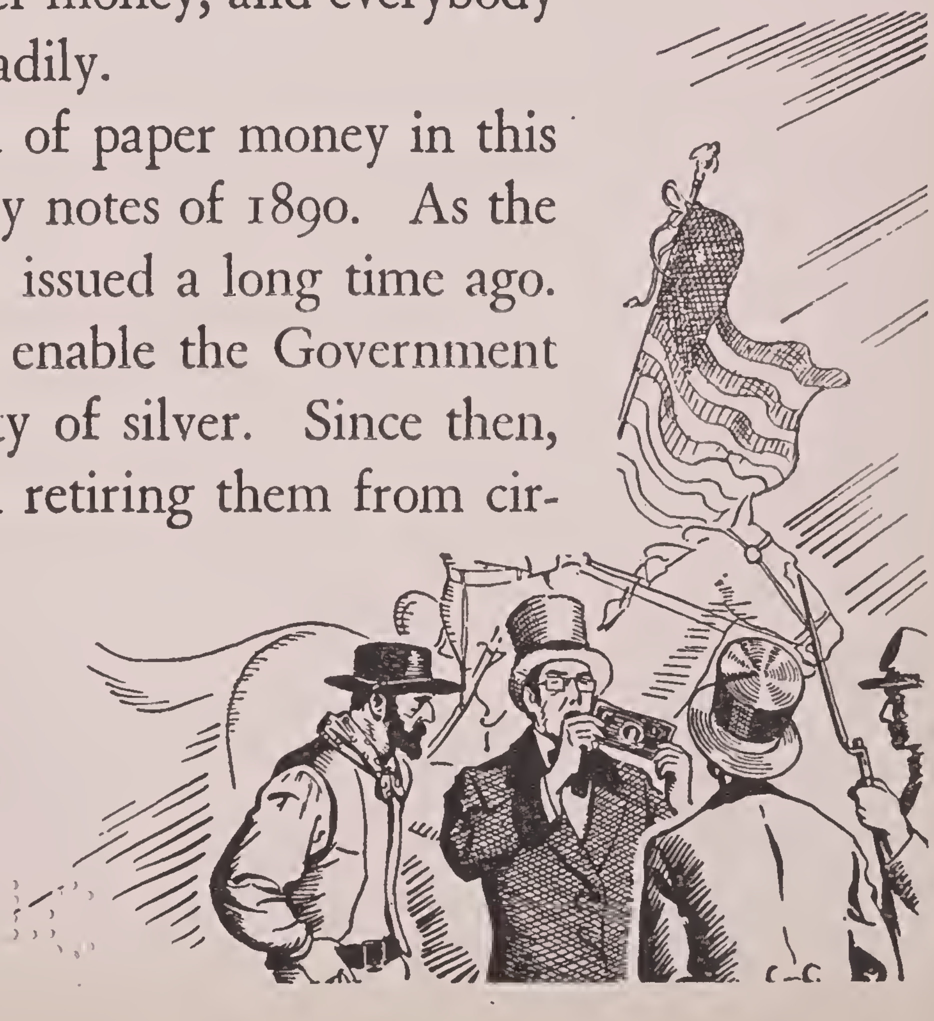
Then there are the United States notes, sometimes known as greenbacks, although other kinds of paper money also now have the back printed with green ink. They are really promissory notes of the United States, in which the United States promises to pay to the holder of the note a certain sum of money, just as when Mr. Smith gives the bank a note, promising to pay some amount of money, except that no particular time of payment is mentioned on the greenbacks nor any interest.

The greenbacks were first issued during the Civil War, many years ago, when the United States Government needed money badly. As

no time was set when the Government would pay the notes (exchange them for gold), and the quantity issued was very large, their value fell. But in 1879 the Government said that it would pay these notes whenever the people who held them asked it to do so. It then began to do this, but whenever a note was paid by being exchanged for gold, or was otherwise paid in, the note was issued over again. The amount of these greenbacks is fixed by law at $347,000,000, and there can never be any more of them than that amount. The Treasury always keeps on hand gold to the amount of $150,000,000, for exchanging greenbacks. The result is that the greenbacks are now just as good as any other paper money, and everybody accepts them just as readily.

*Why is paper money as good as gold?*

The one other kind of paper money in this country is the Treasury notes of 1890. As the date shows, they were issued a long time ago. Their purpose was to enable the Government to buy a large quantity of silver. Since then, the Treasury has been retiring them from cir-



*Greenbacks were first issued during the Civil War*

culation. There is only about one million dollars' worth of them still in the hands of the people, and so they are no longer an important part of the country's money.

## Chapter IX

# HOW MONEY MAKES THE WORLD GO

NOWADAYS everyone has to have money, and much of it, in order to live. Robinson Crusoe, alone on his island, where he gathered all the food that he needed, built his own house, and made his own clothes, had no need for money. He would not have known what to do with it.

*When was money of little use?*

Back in the early days of mankind there was, as we have seen, little need for money. Even today many tribes can get along fairly well by means of barter—that is, exchanging goods directly. Even the Americans who first settled in the wilderness and built up our nation did not need money so much as we do, for these hardy people raised most of their own food and even made their own "homespun" clothing. In our own day, people who live in the

city need money more than do the farmers, because the farmers can raise some of their own food, while the city people have to buy at the stores everything they eat.

*Is money important today?*

A family living in a town or city has to use money to buy everything that it needs. It must pay money for all its food; it has to pay money for clothing, shoes, furniture, and a hundred other things; and it has to pay money to the doctor, the dentist, and everybody else who does work for it.

Every grown-up person, unless somebody else takes care of him, must somehow get a supply of money in order to live. Most people get their money by working; that is, producing and selling goods, or performing some kind of personal service, in payment for which they receive money.

Everyone is continually receiving money and continually spending it. So money keeps passing from one person to another, going round in a circle. A dollar bill, for instance, may pass through the hands of a dozen persons in the

*A family living in the city has to use money to buy everything that it needs*

course of a day. Every time it is spent, a sale of some kind is made, either of goods or of services. The same dollar that a person spent a week ago may come back to him next week in his salary or in payment for something he sells. In this way money keeps moving and makes the wheels of the world go round.

*How do people get money?*

There are so many different kinds of business in which people make money by selling things that we cannot begin to name them here. This is true also of personal service. Some people do manual work (work with the hands), like the carpenter, the plumber, and the truck-driver, although people who do manual work must use their minds to some extent. Other people do mental work, like that of the book-keeper, the doctor, and the teacher, although people who do mental work must use their hands to some extent.

Some people, like most doctors and lawyers, sell their services directly to the public. But most people who render service work for others, generally for some corporation or institution.

*What are wages?*

The pay received by people who work for others is called *wages*, though the word *salary* is often used in the case of mental work. Everybody who works for others should receive enough money in wages to enable him to buy all the things that he needs for himself and for his family, if he has a family. It should also enable him to save some money for use in time of need, and to buy life insurance, so that his family will be provided for in case of his death.

People who sell goods, such as the owner of a grocery store or of a farm, or a person who writes books, or those who sell special services to the public, such as doctors and lawyers, are working for themselves, and so there is nobody to pay them wages. They must try to sell their goods or their services to whoever will buy them, at a price above the cost of producing the goods or furnishing the service.

For instance, if a baker sells his bread at just the amount it cost him to make the bread, or at a price below that amount, he would have nothing left over to buy the things that

he or his family need in order to live, or he might even have to borrow money to buy the flour and other things that go into the making of bread. So he has to charge a certain amount above the cost of making the bread. This difference between the cost of production and the selling price of the goods is known as *profit*.

*What is profit?*

From his profits the owner of a business gets the money that he must have to support himself and his family, just as the man who works for others gets his money in the form of wages.

Everybody who owns stock in a corporation, and receives from time to time payments in dividends, is really receiving a share in the profits of the business. A wage-earner may own a few shares of stock in some company, and so he gets part of his income (the money that he receives) in the form of wages and part in the form of profits.

There are two other ways in which people get incomes. If a person has saved up some money, he may buy bonds with it. Bonds are simply a special kind of "notes," most of which

are issued by corporations that need money to help carry on their business. When a person buys a $500 bond, he is really lending $500, for which the borrower agrees to pay him a certain sum, say five per cent, every year. This payment for the use of money is called *interest*.

*How does the government sometimes raise money?*

Even the United States Government issues bonds. You will remember we mentioned them when speaking of the national bank notes. During the World War, the Liberty Bonds were issued to help raise the immense amount of money needed to carry on the war. The rates of interest on Government bonds are lower than those on commercial bonds. People are willing to accept a low rate of interest on them, because there is no danger of losing money that is loaned to the United States Government, whereas a corporation that borrows money might fail and be unable to pay the money back. So people who lend money to corporations want a higher rate of interest to pay them for the risk that they are taking.

Usually bonds are loans made for a long pe-

riod of years. The borrower pays the lender his interest every year or twice a year, and at the end of the agreed time it repays the amount of the loan itself, which is called the principal. For instance, if a person buys a $500 bond of a certain corporation, with interest at five per cent a year, payable semi-annually, he will receive $12.50 every six months, because five per cent interest on $500 for a year is $25.00. Then, too, a person who owns a good bond can usually sell it very easily to someone else if he should happen to need the money before the time that the borrower must repay the amount of the bond.

*How is interest paid?*

The other important way in which people may receive payments of money is from the ownership of land and buildings. For instance, if Mr. Smith owns a corner lot downtown, with a building standing on it, and the owner of a dry-goods business would like to open a store there, he gets from Mr. Smith a "lease" for a term of years. A lease is simply a written permission to use the land and building. In the



*Bonds are loans made for a long period of years*

lease, the man who is to use the property (he is called the tenant) agrees to pay a certain sum of money to Mr. Smith. The payments may be once a year, once a month, or at other times. This money is called *rent.*

Some people who are very wealthy may get all their income from interest or from rent. Others may perhaps get a part of their income from interest or from rent, and part from profits or wages.

Old people sometimes live on money-payments called pensions, paid either by the Government or by a corporation for which they once worked. But pensions are really a sort of wages, paid to these people as a reward for long and faithful work in the past.

*Why do we have taxes?*

The Government also needs money in order to pay its bills. It has to collect this money from the people, because the Government is the servant of the people. The money that the people pay to the Government in order that it may carry on its work is in the form of taxes.

Some taxes are paid to the United States Gov-

ernment; others are paid to the State Government, and others to county, city, and township governments.

There are many different kinds of taxes, some of which are known as direct taxes and others as indirect taxes. One kind of direct tax is the income tax. People have to pay a small percentage of the money that they receive every year, above a certain amount, to the United States Government. In some states there is also an income tax which must be paid to the State Government. Other direct taxes are those on real estate and on personal property, such as furniture and automobiles; taxes on corporations, taxes on certain kinds of business, and even taxes (licenses) on dogs.

*Are there many kinds of taxes?*

Indirect taxes are taxes that are not paid directly by the people. For instance, there are taxes on tobacco, cigars, cigarettes, playing cards, and other things that are considered luxuries. The dealer or manufacturer simply adds the tax to the price that the people who use these things pay for them; so they do not

realize that they are paying a tax. The tariff, also, is really an indirect tax, because the people who buy goods imported from foreign countries, on which there is a tariff, ordinarily have to pay more for them than they otherwise would.

*How does the government use its money?*

But the money that the people pay to the Government in taxes is spent again by the Government in payment for the goods that it buys, and for the salaries and wages of the thousands of persons who work for the Government.